No. 91-1890

FILED
JUN 26 1992
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1991

GERARD DAVID DUNWOODY, U. ALICE ZIPLIES, NATIONAL RESEARCH & MARKETING and CASTLEWOOD CORPORATION,

Petitioners,

v.

EDN CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE SUPERIOR COURT OF PENNSYLVANIA

BRIEF OF RESPONDENT EDN CORPORATION IN OPPOSITION

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QUESTIONS PRESENTED

Where the Pennsylvania state trial court heard and rendered a decision on a case in which plaintiff (respondent herein) claimed defendants (petitioners herein) had in violation of their fiduciary duty to plaintiff engaged in competition with plaintiff and ordered the petitioners to account to respondents for the revenues generated by their wrongful conduct, and where no claim for ownership of a copyright was made by any party or ruled upon by the court, is the "work for hire" doctrine under the Copyright Act, 17 U.S.A. 101, et seq. of any relevance?

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OPINION BELOW

The Opinion of the Superior Court of Pennsylvania is unreported.

JURISDICTION

We agree with the Statement of Jurisdiction set forth in the Petition.

STATEMENT OF THE CASE

This case presents a straightforward application of non-controversial principles of agency law by the Montgomery County, Pennsylvania Court of Common Pleas and, on appeal, the Superior Court of Pennsylvania. The complaint alleged; the plaintiff proved at trial; and the Court of Common Pleas found that the defendant/petitioner Gerald Dunwoody was EDN's agent when he worked for EDN, that in that capacity he owed a fiduciary duty to EDN, and that he, in concert with and through the other defendants, violated that duty.

This case is decidedly *not* a copyright case. No where in the complaint, answer, or other pleadings filed in this case was any reference made to the Copyright Act, 17 U.S.C. 101, et seq., either directly or indirectly. The position advanced by petitioners herein was not raised until *after* trial, when, in a fit of desperation, they raised the argument that this action was precluded by the Copyright Act.

The pleadings, trial and findings of fact concerned the question of whether or not Gerald Dunwoody, who worked for EDN as its vice president, violated his fiduciary duty of loyalty to EDN when he established and operated a competing business while still vice president of EDN. Over a course of time that defendant Dunwoody was supposed to be devoting himself to working for EDN in the development of promotional materials for its clients, and was outwardly portraying himself as such, he began working with one of EDN's clients in the development of promotional materials for that client similar to materials EDN had developed for that client, Sears, and others. In fact, the idea for the materials that were developed, a home healthcare publication known as "Resource", designed to provide a vehicle to advertise home healthcare products sold by Sears, came from Sears, a client with whom Dunwoody had worked on behalf of EDN. (See Superior Court Opinion, A-5.) After initially reporting the idea to EDN and beginning to work on it for EDN, Dunwoody began to work on it for his own account and to keep its development secret from EDN. Ultimately he secretly entered into a contract with Sears to publish and distribute the Resource booklet. After publishing it for one year, in 1985 sold his proprietary rights in the Resource booklet to Sears, which then utilized EDN to publish and distribute it. (See Superior Court Opinion at 4-7.)

In a thoughtful, meticulously prepared opinion, the trial court made detailed findings as to the scope of the defendants' obligation to EDN and what they did to violate their fiduciary duties, and the Superior Court reviewed these findings and the record in detail. (See Superior Court's Opinion at 4-7.)

The Statement of the Case in Dunwoody's Petition is simply false in many respects. The statements made by petitioners in their brief to the effect that "ownership of a copyrighted work has been determined under state law" and that "ownership of a copyrighted work was awarded to [EDN] pursuant to Pennsylvania agency law," (Petitioners' Brief at p.2) are incorrect. The lack of any citation to the record to state where such findings were made is telling. There are none.

Other false statements in the Statement of the Case are that, "Dunwoody had performed services for EDN under a contract and as an independent contractor, though petitioners National Research and Marketing [NRM], by whom he was employed." Petition at 2. This passage is apparently intended to create the impression that Dunwoody was an independent contractor who worked on numerous other projects. Petitioners do not cite a finding of the Court of Common Pleas to support that claim, because the findings of fact not only do not support any such claim, they directly *refute* it. The Court of Common Pleas found that " . . . NRM was a sham used by Dunwoody to disguise his relationship with EDN and hide his salary from his creditors . . ." (Finding No. 92).

Our point here is not to debate the facts found by the Court, because the Petitioners did not appeal from those factual findings, but merely to show that the factual underpinning for the Petition is false. Not only is it legally without merit, the Petition is simply inconsistent with the facts found by the Court of Common Pleas.

ARGUMENT

The Superior Court's Decision Is Not Inconsistent With The United States Supreme Court's Decision in *Community for Creative Non-Violence v. Reid.*

Petitioners assert that a writ of certiorari should be granted because, they say, the decision of the Superior Court is in conflict with the decision of the Supreme Court of the United States in *Community for Creative Non-Violence v. Reid*, 490 U.S. 703

(1989). That case concerned the application of a "work made for hire" doctrine under the Copyright Act, a doctrine that is only applicable when two parties contest the right to control reproduction, distribution or display of copyrighted item. In the *Reid* case, two parties were each arguing that their respective separately filed certificates of copyright registration was the valid one. Each claimed that it owned the copyright to a statue. The case concerned the application of the "work made for hire" doctrine, which is an exception to the general principle that the author or authors of a work, that is, the person who translates an idea into a fixed, tangible expression entitled the copyright protection, is the owner of the copyright. The "work made for hire" exception provides that if the work is made for hire, the employer or other person for whom the work was prepared is considered to be the author and owns the copyright. There is a large body of jurisprudence on the application of the "work made for hire" doctrine of which *Community For Nonviolence v. Reid* is only one.

That issue, however, has absolutely nothing to do with what happened herein where, entirely apart from the issue of whether or not petitioners or EDN may have at one time owned the copyright for the work they produced, the petitioners' production of the Resource materials and reaping of income from it constituted a breach of their fiduciary duty to EDN under uncomplicated principles of Pennsylvania agency law. The instant case involves no claim that Dunwoody owns the Resource copyright, and EDN made no claim that it owned the copyright in the Resource publication.[1] Instead, this is a simple case about the defendants' breach of their fiduciary duties to the plaintiff under state law.

In that respect it is like the cases cited by the Superior Court in its decision, *Brignoli v. Balch Hardy & Scheinman, Inc.*, 645 F.Supp. 1201 (S.D.N.Y. 1986); and *Sargent v. American Greetings Corp.*, 558 F.Supp. 912 (N.D. Ohio 1984), only two of many cases in a well developed line of authority holding that the copyright laws do *not* preempt state law claims like those made herein, in which a wronged party asserts a claim against an employee for a breach of a duty of loyalty or confidentiality under state law. The *Reid* case cited neither of those cases, nor any others like

1. In fact, prior to the trial "Resource" was sold by Dunwoody to Sears who thereafter published it through EDN.

them, nor even discussed the issue. It was, as shown above, a dispute in with both parties agreed that the copyright law governed the dispute and represents an application of one doctrine under that law.

Finally, even assuming the "work for hire" doctrine were somehow applicable, there is nothing in the *Reid* opinion at all inconsistent with the holding of the Court of Common Pleas or the Superior Court. The critical part of the *Reid* case, according to the Petition, is said to be a holding that, when addressing the issue of an employee's or agent's rights to ownership of a copyright, a "federal rule" of agency must be applied. To the extent that petitioners imply that a special federal statutory notion of agency that is somehow different from that followed generally in the law exists, they are simply *wrong*. All that *Reid* said is that in applying the work for hire doctrine, when it can be important to resolve the issue of whether or not a party claiming a copyright was an employee of the other party claiming the copyright, courts should apply "general common law principles of agency."

Thus, even assuming that it were important to make reference to common law principles of agency under the *Reid* decision, which it is not, petitioners have not even made argument as to what the difference is between the common law principles of agency to which the *Reid* decision refers and the principles of agency law applied by the Court of Common Pleas and by the Superior Court in this case. They do not suggest what the "common law principles of agency" are; what Pennsylvania's are and how they differ in any way. The reason they have not, we suggest, is that the application of the "general principles of agency law" referenced in *Reid*, were they to be involved here, would be as uncomplicated here as was the application in this case by the Court of Common Pleas of the common law principles of agency followed in Pennsylvania. There simply is no credible argument to the contrary.

CONCLUSION

For all the foregoing reasons, the petition for certiorari should be denied.

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Dated: June 25, 1992

CERTIFICATE OF SERVICE

I hereby certify that I caused a correct copy of the foregoing Brief in Opposition to Petition for Allowance of Appeal to be served upon counsel for the appellant, John Spelman, by mailing a copy thereof to him at the address printed below:

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June 25, 1992